AGRICULTURAL OUTLOOK DIGEST

AOD 172

ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE • NOVEMBER 1971

ECONOMIC ACTIONS AFFECTING FARMERS

Recently announced Government actions are working in behalf of the farm sector:

- The post-freeze period of the economic stabilization program is designed to keep wage and price increases under control. Raw agricultural products will continue to be exempted.
- A strengthened feed grain program for 1972 is designed to increase farm income and reduce stocks.
- Farm goods are flowing again through West Coast ports, under a court order halting Pacific dock strikes for 80 days.
- The dollar float has created a more favorable climate for American exports. (See "Monetary Moves," page 2.)

Phase II

The President has announced that the 90-day wage and price ceilings which end November 13 will be followed by a program designed to bring inflation down to a rate of 2 to 3 percent by the end of next year. Decisions on achieving this goal will be left to a price commission and a wage board, with representatives from all sectors. The Cost of Living Council will continue providing broad policy guidelines.

Scrutiny by the price commission will help contain inflation in farm production expenses. But unlike the 90-day freeze, Phase II is likely to allow limited price gains on some production inputs.

Farm prices will stay exempt from direct control. Inasmuch as they are being indirectly restrained during the 90-day freeze by the ceilings on prices at the processing and retail levels, allowances by the price commission for selected price rises after mid-November could help producers.

Feed Program

The 1972 feed grain program has been bulwarked to increase farm income and reduce stocks.

October 1 prospects pegged the 1971 crop of feed grains at almost 202 million tons, 43 million more than in 1970. The new program has been modified to cut back on feed grain acreage.

For 1972, USDA programs aim at boosting set-aside acreage from 18 million to at least 38 million acres. For corn, it's hoped that planted acreage will drop by 12 million acres to 63 million, with a consequent production decline from about 5.4 billion bushels to 4½ billion.

Required set-aside rises from 20 to 25 percent of base acreage, and barley is brought into the program. At sign-up time, farmers can voluntarily set aside another 10 percent of their corn or sorghum base or 20 percent of barley. In addition, they can offer to set aside a further 5 to 10 percent of corn or sorghum acreage, but this land won't be accepted unless more acreage is needed to meet national goals.

Set-aside payments are raised to maintain the same payment rate per acre set aside as in 1971. Payment on additional acreage voluntarily set aside is 52 cents per bushel for corn, 42 cents per bushel for barley, and 49 cents per bushel for sorghums. Extension of loans on farm-stored grain also has been announced.

Dock Strike

Federal court action under the Taft-Hartley Act has temporarily suspended the strike at Pacific ports. The order which created the 80-day respite was handed down October 6.

July, August, and September losses to farm exports via Pacific ports ran to $200 million. July-August customs data pinpoint losses by commodity:

Commodity	West Coast farm exports, July-August	
	1970	1971
	Mil. dol.	
Wheat, flour	63.2	1.3
Rice	21.4	5.5
Feed, alfalfa meal	6.0	0.5
Cotton	15.2	2.5
Livestock, products	19.0	7.0
Fruits, vegetables	43.3	21.0

Three-fourths of shipment losses may not be recouped after the strike ends: Many West Coast commodities can be imported from other countries than the United States.

If prolonged, recent strikes at most Gulf and Atlantic ports could wreak more havoc on shipments of grains. Gulf ports normally load two-thirds of the U.S. feed grain exports and one-half of the wheat. Soybean exports would be hurt less than grain shipments in a long walkout because alternative sources of world oilseeds are limited. Most cotton exports outside the West go through Texas ports which have not been struck.

MONETARY MOVES: DOLLAR FLOAT AND SURCHARGE

The dollar float and import surcharge, part of the new economic policies, are designed to strengthen the U.S. economy by improving our balance of trade and bring about a change in the international monetary system.

These aims are important to the American farmer, strongly dependent on export sales. The harvest of 1 acre in 4 is in crops that wind up abroad.

The necessity for change has been building up for a long time. In recent years, U.S. imports have grown faster than exports, creating a trade imbalance. At the same time, growth of overseas investments by Americans has outpaced incoming capital, our military spending abroad has increased, and tourism has blossomed, all leading to a huge net dollar outflow.

While supplies of dollars abroad have increased, world dependence on the dollar as a stable trade unit has diminished. In terms of both supply and demand on world money markets, the U.S. dollar is thus in surplus, overvalued at the old exchange rate.

In mid-August, the President acted to remove the dollar from its keystone role, put it on an equal basis with other currencies, and obtain a shift in exchange rates between the dollar and currencies of our trading partners that makes our prices more competitive.

Dollar Float

He accomplished this by suspending guarantees of automatic convertability of U.S. dollars into gold—the dollar float. This has pressured other nations to let the value of their currencies float upward in relation to the dollar.

The import surcharge, a selective added duty on imports that compete with domestic products, has placed added pressure on nations who export to us to realign their exchange rates.

Since mid-August, many nations have taken this move, bringing down the dollar's price. Because dollars now are worth less in these nations, U.S. exports can be purchased more cheaply, a trade advantage for us. We now pay more for the things we import from these nations, which helps to curb our import buying, slowing our net dollar outflow.

So far, our efforts to bring about currency realignments have been partly successful. Major agricultural customers, for example, have revalued their currencies by a trade-weighted average of 5.65 percent over par values so far during 1971. But further change would be desirable from our standpoint.

The twin goals of boosting exports while curbing imports are intended to pay dividends at home, helping to strengthen the domestic economy. And when incomes and employment rise, demand for farm products usually improves.

Barriers to Success

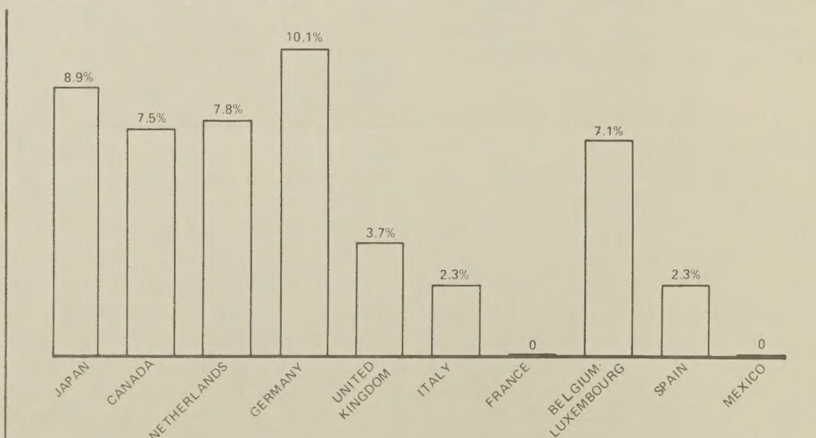
It's important to realize that the surcharge and dollar float, like any moves in international finance, can only help create more favorable conditions for trade. Success depends on actions taken by our trading partners, as well as by ourselves. Getting other countries to lower trade barriers would have the same effect as getting them to revalue. On the other side of the coin, stiffened trade barriers to American products could offset some of the benefits brought about by the dollar float.

Many nations already have restrictive levies which automatically offset lower import prices, especially for grains. For example, larger corn production and the revaluing of the German mark would have made our corn cheaper to German importers this year. But the variable levy system and special border adjustments imposed by the European Community, to which Germany belongs, ensure that German importers are still buying imported corn at fixed high prices.

The import surcharge will have a limited impact on domestic farm product sales. It applies only to about a fourth of our farm imports and excludes such noncompetitive products as coffee and bananas, and such competitive commodities as sugar, chilled beef, and many dairy products, which are imported under quotas.

The main brunt of the import tax will fall on fruits and vegetables. Mexico, Taiwan, Canada, and Europe are our main suppliers. Yet even with the surcharge, tariffs on these imports are only a nominal part of the retail price, so sales won't be affected much. Besides produce, the surcharge will hit mainly imported alcoholic beverages.

AS FOREIGN CURRENCIES APPRECIATE, U.S. EXPORT PRICES DROP



Currency appreciation in top 10 markets for U.S. farm goods, as of mid-October

Half of these countries allowed appreciation following the gold-dollar float in mid-August. Canada had allowed its dollar to float in May 1970, and Germany and the Netherlands floated their currencies in May 1971. France has floated for official transactions but not trade. Mexico has maintained par with the dollar.

COTTON IN CRUNCH

A tight supply situation for cotton has become a little tighter with declining crop prospects.

The October estimate predicts a crop of 10.7 million bales. This would limit output to a 5-percent gain over 1970 due to below-average yields. Adding the smaller carryover this past August to this estimate, we'll have 15 million bales to go on this season, the least in 24 years.

The tight U.S. supply is limiting our export capabilities at a time when world supplies are down. Our exports in 1971/72 could drop a fifth. Meanwhile, American mill use should about hold its own. So total cotton use could drop to about 11 million bales.

This would still be more than producers are growing this year. Consequently, stocks in August 1972 could dip a little below 4 million bales.

Prices Up

Government price ceilings haven't affected raw cotton prices thus far. Prices received by farmers during the first 2 months of the 1971/72 season averaged 27 cents a pound, up 4 cents from a year before. The support price for the 1971 crop is down 2 cents to 19.50 cents for Middling 1-inch upland cotton, good micronaire, but competitive bidding and prospective larger marketings during the season likely would kick producer receipts, including payments, over 1970/71's $2 billion.

The greatest demand pressure this season could fall on short and medium staples. About four-fifths of last August's cotton carryover stapled 1-1/16 inches and longer, about double the normal proportion. At the other end of the spectrum, short staples were only 7 percent of stocks and medium staples dropped to 12 percent.

The pressure on extra long staple cotton is much eased this season. Following last year's short crop, August stocks plunged 45,000 bales to 62,500. But acreage this year is up by about a third and yields by about a fourth. Supplies will be about adequate to meet expected mill and export needs. The 1972 program features another relatively large acreage allotment.

QUEST FOR CAPITAL

During this decade farmers' capital needs and debts will mushroom, the Farm Credit Administration (FCA) predicts.

In 1960-70, cumulative debt doubled to $60 billion, while the ratio of farm debt to farm assets jumped from 12 to 19 percent. The FCA study predicts the 1970's will see more of the same: In 1970-74 farmers will use $15 billion a year for operating costs, land transfers, new equipment, and expansion. Yearly capital flow in 1975-79 will be up to $19 billion, debt probably will double again by 1980, and the ratio of debt to assets may go to 30 percent.

At the current buildup of 9 percent a year, farm debt could total $137 billion by 1980. However, if the rate of debt increase slips to 4-5 percent by then the total could top $90 billion.

Why must farmers go more in hock in the next decade? They may continue to meet just under half of each year's capital needs through borrowing in 1975-79, as they now do. But total capital needs will rise.

Familiar forces will still be at work in 1980: larger farms, further switching from man to machine power and chemicals, and buying of more, higher priced, inputs. Moreover, there will be growing substitution of custom services, rented land, and leased equipment, and a gradual change in attitude about borrowing. Rather than a necessary evil, farmers are coming to think of borrowing in terms of its utility.

Mill Use Maintained

U.S. mill use of cotton during calendar 1971 will likely increase a little, as textile activity recovers from last year's relatively depressed level. Sharply higher fiber consumption during recent months probably reflects some pickup in economic activity.

Cotton use per capita may hold at last year's 18.6 pounds, partly because of a surge in popularity of denim and corduroy (see page 4). What's more, cotton is doing a nice job of competing against its long-time sparring partners. Looking at fibers consumed on cotton-system spindles—the main arena where cotton and man-mades meet head-on—cotton use gained 5 percent over January-August 1970. Overall use of man-made fibers matched this gain, but 2 of the chief competitive fibers, rayon and acetate, were down 6 percent.

Imports of non-cotton textiles are increasing this year to over 400 million pounds, compared with 330 million pounds in 1970. But new non-cotton textile agreements with Asian producers will restrain future import growth.

PACKED VEGETABLES AT CEILING PRICES

With smaller supplies, prices of many canned and frozen vegetables are pushing ceilings established by the 90-day freeze. The carryovers of leading canned vegetables this summer were down substantially once again. With larger packs this fall, canned vegetable supplies this season will be the smallest since 1967, although still adequate for trade needs.

Supplies this season will be larger for peas and possibly corn and combined tomato products. Supplies of snap beans, pickles, beets, and kraut will be smaller than in 1970/71.

If and when price restraints permit, f.o.b. prices are likely to move up a little. Canners incurred added costs in this year's pack because of inflation and higher raw product prices.

Downturns in carryover stocks of leading frozen vegetables have limited total supplies for the 1971/72 season.

Prices of corn and peas, the big-volume frozen items, are at ceiling levels. This may lend strength to prices for other frozen vegetables. Wholesale prices are likely to increase if price ceiling are eased.

Dry Bean Pinch

Dry bean supplies this season are the lowest in since 1967-68. The carryover is way down and a production drop of 6 percent is indicated, mainly because of a smaller California crop.

Prices have been the highest since World War II. September, usually the low month for prices, recorded an unusual $9.40 per cwt. average farm price. Prices moved higher in October, and could post further gains later in the season.

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE

U.S.MAIL

PETS AT THE FEED TROUGH

You may not rank pets, lab animals, and furbearers high on the list as consumers of high-protein feeds or other feedstuffs. After all, most people remember the days when the family pooch or kitty lived off the largess of table scraps. But a number major feed processors probably are deriving more and more of their total profit from sales to pet fanciers.

The family now buys pet food along with its own, choosing from over 100 items typically stocked at the store and advertised vigorously.

This approach is well proven: Sales at plant have skyrocketed to a current yearly level of well over $1 billion. (People-food retail sales approach $120 billion.) By quantity, these pet foods and specialty feeds add up to over 4 million tons a year. (Farm livestock and poultry eat about 180 million tons a year.)

Pet foods consume around 2 percent of the total of all feeds available to livestock and poultry and 5-8 percent of the high-protein feed ingredients (those containing 20-percent-plus protein).

This heavy usage of soy, meat, fish, corn gluten, and other high-protein meals has been a hidden factor in the astronomical rise of high-protein feed consumption, most often attributed entirely to farm livestock. Pet food consumption nearly doubled in 1958-69, while high-protein feed consumption rose 35 percent. Pet food growth is a partial offset to losses suffered in the feed market as a result of substituting urea for feed protein in some ruminant rations.

Trends suggest the fast rise in pet food sales will continue, creating further competition for feed concentrates between the feeders and the fanciers.

DRESS UP IN DUNGAREES?

While Mom is out buying dog food, her teenagers are shopping for a corduroy sport jacket and stretch-denim hot pants. Like the pet-food craze, which has spurred demand for feed, the teenage craving for things with a "natural" look and feel has created a boom in denim and corduroy, adding needed spark to cotton fabric output.

These cloths go back a long way in history. Denim, for example, started as "serge de Nimes," a sailor's favorite named after the French factory town which produced it. Softer, more luxuriant corduroy began as "cord du roi"—the king's cloth in French.

American cotton mills are having a heyday on denim and corduroy. Fashion fads caused output of denim to rise by half and corduroy by a third during the second half of 1970 and the first quarter this year, compared with year-earlier periods. In the first quarter, combined output was almost a tenth of total cotton-mill cloth production.

There's a kicker for cotton farmers, too. The output gain for denim and corduroy required the equivalent of an additional 175,000 bales of raw cotton output from almost 200,000 acres at 1970 yields.

BROILER OUTPUT AND PRICES UP

Broiler output is larger, broiler prices are higher than in fall 1970. Feed prices are lower, meanwhile, contributing to a better feed-price ratio than last year.

Broiler slaughter under Federal inspection has been running over 1970 levels since August. Higher output will continue through this fall. Potential for larger fall production comes from a 5-percent boost in both broiler chick placements and broiler eggs set for September-December, as well as 1 percent heavier average live weights.

Broiler production drops seasonally in November and December, along with demand, so prices are declining. But wholesale ready-to-cook prices are topside of 1970 prices. With continuation of the strong demand that has helped prices recently and a narrowing of the heavy margin of pork output compared with last fall, broiler prices are likely to ride slightly over 1970 levels through December.

The broiler-feed price relationship is a key factor explaining the current marketing increase. It was 3.0 in September, up from 2.7 a year before, and will continue higher than 1970 ratios for the next few months.